

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS

SUPERIOR COURT

Docket No. 03-E-0106

**In the Matter of the Liquidation of
The Home Insurance Company**

Docket No. 03-E-0112

**In the Matter of the Liquidation of
US International Reinsurance Company**

LIQUIDATOR'S EIGHTEENTH REPORT

I, Roger A. Sevigny, Insurance Commissioner for the State of New Hampshire, as Liquidator ("Liquidator") of The Home Insurance Company ("Home") and US International Reinsurance Company ("USI Re") (collectively, the "Companies"), hereby submit this eighteenth report on the liquidations of the Companies, as of September 9, 2005, in accordance with RSA 402-C:25 and the Order Concerning Liquidator's Reports issued January 19, 2005.

1. Proofs of claim. The claim filing deadline in the Home and USI Re liquidations was June 13, 2004. The Liquidator has received a total of 248 new proofs of claim (224 for Home and 24 for USI Re) between the last Liquidator's report and August 29, 2005, so the proofs of claim submitted now total 18,756 (18,557 for Home and 199 for USI Re). These numbers include as a single proof of claim (a) multiple proofs received from a claimant that appear to assert the same claim, and (b) claims filed on behalf of mass tort claimants against a single insured. It is difficult to summarize the proofs of claim in advance of the claim determination process because (a) the proofs of claim that quantify the claim may be overstated or understated, (b) most proofs of claim do not quantify the amount claimed, and (c) an individual proof of claim may involve many different claims and claimants.

2. Claim determinations and reports. The process of determining proofs of claims continues. Since the last Liquidator's report, the Liquidator has issued partial or final notices of determination addressing 303 proofs of claim (298 for Home and 5 for USI Re) pursuant to the Restated and Revised Claims Procedures Order entered January 19, 2005, so that as of August 31, 2005, the notices of determination issued have addressed 924 proofs of claim (907 for Home and 17 for USI Re). The Liquidator will file another report of claims and recommendations when a sufficient number of the claims have passed the 60 day period for objections. Nineteen claimants have filed requests for review and 17 of these have been sent notices of redetermination. Five claimants have filed objections with the Court, and the resulting disputed claims proceedings are now pending before the Referee. Since the last Liquidator's report, the Liquidator submitted two further reports of claims and recommendations, and the Court entered orders approving those reports on June 24 and August 12, 2005. The Liquidator has now presented and the Court has approved claims recommendations for a total of 561 claims (547 for Home and 14 for USI Re) involving a total allowed amount of \$74,672,568.33.

3. Financial reports. Copies of the unaudited June 30, 2005 financial statements for Home and USI Re are attached as Exhibits A and B to this report. The June 30, 2005 Home statements reflect \$693,421,619 in assets under the Liquidator's direct control, and \$82,051,049 in collections and other receipts and \$16,701,352 in operating disbursements of the liquidation since January 1, 2005. The June 30, 2005 USI Re statements reflect \$2,500,687 in assets under the Liquidator's direct control, and \$317,872 in collections and other receipts and \$347,040 in operating disbursements of the liquidation since January 1, 2005.

4. USI Re Liabilities. The actuarial firm of Milliman, Inc., has completed its review of USI Re's reserves as of December 31, 2004 and agrees that the booked USI Re reserves are

reasonable. USI Re's gross undiscounted liabilities at December 31, 2004 were approximately \$70 million and the current estimate is that ultimate cash to be collected and available for distribution may exceed \$5 million. A copy of the Milliman review is attached as Exhibit C. (The executive summary of Milliman's report concerning Home's reserves was submitted to the Court on February 14, 2005.)

5. 2005 Budget. A comparison of the actual and budgeted general and administrative expenses, on an incurred basis, through June 30, 2005 is attached as Exhibit D. Actual expenses are below budget by approximately \$864,477, or 6.5%, with favorable variances in nearly all categories.

6. Investment update. A summary of the Companies' holdings of bonds and short-term investments as of June 30, 2005 is attached as Exhibit E. The book value of Home's bonds and short-term investments at June 30, 2005, was \$678.2 million compared to the market value of \$677.9 million, an unrealized loss of \$0.3 million. The unrealized loss at March 31, 2005, was approximately \$7 million, which decreased in the second quarter due to a decline in interest rates. On June 30, 2005, bonds matured that were formerly restricted and generated \$53.8 million of unrestricted funds to invest. Conning Asset Management invested these funds short term while evaluating interest rate trends, recently and particularly in light of Hurricane Katrina. Conning has been proceeding cautiously while selectively looking for opportunities to invest in longer duration securities with less exposure to interest rate fluctuations. Home and USI Re continued to maintain \$88 million and \$1.5 million, respectively, book value of Treasury bill investments outside of Conning Asset Management's control, which will be used to fund operating requirements.

7. Early Access Distributions to Guaranty Funds. As described in the Liquidator's Seventeenth Report, the Liquidator made an early access distribution to guaranty funds in early 2005 after obtaining approval from the Court and a release agreement from the United States. That distribution was in an amount equal to 100% of guaranty fund loss and loss adjustment expense payments from the inception of this proceeding through June 30, 2004. The Liquidator intends to seek approval of a second early access distribution in the fall of 2005 based on guaranty fund payments through September 30, 2005 reported to the Liquidator as of November 15, 2005. This distribution will also be conditioned upon the Liquidator obtaining a waiver of claims under the federal priority statute, 31 U.S.C. § 3713, from the United States.

8. Guaranty Fund Matters. The Liquidator has scheduled a meeting with guaranty funds for September 28, 2005, to discuss continuing coordination efforts, the second early access distribution, and other issues.

9. AFIA. The proceedings with the ACE Companies and Benjamin Moore & Co. concerning the Liquidator's motion for approval of the agreement with AFIA Cedents are pending. Beginning on July 25, 2005, the Court conducted a five-day evidentiary hearing, including testimony from eleven witnesses. Following the hearing, the Liquidator, the ACE Companies and Benjamin Moore & Co. submitted proposed findings of fact and conclusions of law. Nationwide has also sought to intervene in the proceedings, a motion opposed by both the Liquidator and the ACE Companies.

10. Other significant litigation. By an order dated April 7, 2005, the New Hampshire Supreme Court accepted an appeal of the Court's decision in the Liquidator's favor in Gonya v. Sevigny (No. 2005-0170). The brief for the Commissioner and Liquidator was filed with the

Supreme Court on August 31, 2005. The Liquidator has revised and refiled a complaint in the premium collection litigation with Employers Insurance of Wausau in light of the decision of the United States Court of Appeals for the First Circuit. Sevigny v. Employers Ins. of Wausau, No. 04-2411 (1st Cir., June 9, 2005). The Liquidator has appealed to the Pennsylvania Supreme Court from the Commonwealth Court's adverse decision in the retaliatory tax appeal case concerning whether the value of New Jersey second injury fund assessments is required to be included in the City/Home's New Jersey basis for the computation of its Pennsylvania retaliatory tax for the years 1986, 1987 and 1988.

11. Repatriation of Canadian Branch assets. As noted in the Liquidator's Seventeenth Report, the Liquidator received \$12 million from the Provisional Liquidator of Home's Canadian Branch on February 20, 2005. The Provisional Liquidator of Home's Canadian Branch presently holds approximately \$9 million (US) and Can\$12 million. At this time there is only one remaining claim pending in the Canadian estate, in the claimed amount of Can\$525,000, although the issue of the Canadian Branch's tax obligations remains open.

12. Deposits. Liquidation staff have been seeking to collect deposits made by Home and USI Re with various states and have collected or resolved issues with most states. Since the Liquidator's last report, funds have been collected from Louisiana (\$125,000), Arizona (\$125,000) and New York, where the Liquidator obtained release of \$1,826,480 of the Companies' \$2,563,000 deposit. New York retained the remainder of the New York special deposit to pay Home of Wisconsin's obligations to surplus lines policyholders in New York and Illinois, the states where Home of Wisconsin did business on a surplus lines basis.

13. Reinsurance commutations. In accordance with the Court's March 23, 2004 order, the Liquidator reports that a reinsurance commutation agreement was reached with The Paladin Reinsurance Corporation as described in the appendix to this report. Discussions with other reinsurers of Home or USI Re are continuing, and the Liquidator expects to file motions for approval of two commutation agreements in the near future.

14. Asset dispositions (including compromises) and assumptions of obligations. In accordance with paragraph 5 of the Order Establishing Procedures for Review of Certain Agreements to Assume Obligations or Dispose of Assets entered April 29, 2004, and paragraph 5 of the Liquidator's Eleventh Report, the Liquidator submits a confidential schedule of asset dispositions (including compromises) and obligation assumptions since the last report to be filed under seal as an appendix to this report.

15. Sale of City International Insurance Company. The potential sale of City International Insurance Company ("City"), a subsidiary of USI Re, referred to in the Liquidator's Seventeenth Report was not consummated. The Liquidator has had expressions of interest from other potential acquirers and will have discussions with them. In the meantime, the Liquidator is negotiating a commutation with a large cedent to City in order to increase City's solvability and potentially reduce its liabilities. A sale of City would streamline USI Re's corporate structure. The Liquidator is considering moving the USI Re liabilities to a liquidating trust and selling the shell of USI Re.

16. U.S. Ancillary Proceedings. Ancillary proceedings for Home have been filed in Oregon, New York, Massachusetts and New Mexico. Idaho is expected to file an ancillary proceeding for Home shortly. There are no pending ancillary proceedings for USI Re as the

Oregon proceeding was closed by order of the Circuit Court for Marion County, Oregon dated April 14, 2005.

17. Storage Costs. On August 8, 2005 and December 16, 2004, the Court entered orders approving the disposal of certain records. The Liquidator is preparing to dispose of documents in accordance with the orders in order to reduce storage costs. A summary of the document disposal procedures is attached as Exhibit F. The Liquidator is also disposing of certain categories of records in accordance with the February 17, 2005 order approving disposal of imaged records.

18. Information Technology Projects. Automated systems to handle Proofs of Claim (POC) and Notices of Determination (NOD) have been completed. Enhancements to the NOD system are being made to improve productivity of the adjustors and the quality and accuracy of the information being captured. Preliminary work has been started to gather the business requirements for the Asset Distribution System. In the interim, procedures are in place to capture the early access amounts and to register them in the existing claim processing system. Full system capabilities to support asset distribution are expected to be completed by the middle of 2006. To reduce disaster recovery expenses, a recovery data center has been constructed in the Manchester, New Hampshire facility to replace the disaster recovery contract with Sungard. All required hardware, software and networking equipment has been installed. Initial disaster recovery tests are planned to be conducted in September and October of this year. The facility is expected to be fully operational by year-end 2005. The liquidation is making progress in reducing the IT expenses. The initiatives undertaken and savings realized in 2005 include reducing the scope of the Pyramid system license (saving \$25,000 per year in support fees), vendor bill reviews and management (saving approximately \$120,000 this year) reducing

mainframe infrastructure by eliminating or combining jobs, reducing tape mounts, eliminating printing of reports and reducing direct access storage (DASD) capacity (saving approximately \$420,000 per year in mainframe/AS400 system usage charges).

Respectfully submitted,



Roger A. Sevigny, Liquidator

September 13, 2005

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS.

SUPERIOR COURT

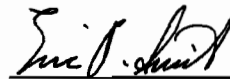
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CERTIFICATE OF SERVICE

I hereby certify that on September 13, 2005, a copy of the Liquidator's Eighteenth Report, without the confidential appendix, was served upon the persons named on the attached Service List, by first class mail, postage prepaid.

Dated: September 13, 2005



Eric A. Smith

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